

KVC Health Systems, Inc.

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2022 and 2021

KVC Health Systems, Inc.
June 30, 2022 and 2021

Contents

Independent Auditor’s Report	1
Consolidated Financial Statements	
Statements of Financial Position	4
Statements of Activities.....	5
Statement of Functional Expenses – Year Ended June 30, 2022	6
Statement of Functional Expenses – Year Ended June 30, 2021	7
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information	
Consolidating Schedule of Financial Position – June 30, 2022.....	30
Consolidating Schedule of Activities – Year Ended June 30, 2022	32
Consolidating Schedule of Financial Position – June 30, 2021.....	33
Consolidating Schedule of Activities – Year Ended June 30, 2021	35
Functional Expenses – KVC Health Systems, Inc.....	36
Functional Expenses – KVC Behavioral HealthCare, Inc.....	37
Functional Expenses – KVC Behavioral Healthcare West Virginia, Inc.	38
Functional Expenses – KVC Behavioral Healthcare Kentucky, Inc.	39
Functional Expenses – KVC Behavioral Healthcare Nebraska, Inc.....	40
Functional Expenses – KVC Hospitals, Inc.	41
Functional Expenses – KVC Foundation, Inc.	42
Functional Expenses – KVC Behavioral Healthcare Missouri, Inc.....	43
Schedule of Revenue and Expenses for Kansas Department for Children and Families Reintegration/Foster Care/Adoption Services.....	44
Schedule of Revenue and Expenses for Kansas Department for Children and Families Kansas Child Placing Services.....	45

KVC Health Systems, Inc.
June 30, 2022 and 2021

Contents (Continued)

Schedule of System of Care Grant – G210214.....	46
Schedule of Expenditures of Federal Awards	47
Notes to the Schedule of Expenditures of Federal Awards	50
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor’s Report.....	 51
 Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance – Independent Auditor’s Report	 53
 Schedule of Findings and Questioned Costs.....	 57
 Summary Schedule of Prior Audit Findings.....	 61



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Independent Auditor's Report

Board of Directors
KVC Health Systems, Inc.
Olathe, Kansas

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of KVC Health Systems, Inc., which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KVC Health Systems, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of KVC Health Systems, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about KVC Health Systems, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KVC Health Systems, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KVC Health Systems, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, statements of functional expenses, grant schedules and schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements.

The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the identified accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The consolidating schedules, statements of functional expenses and grant schedules have not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022 on our consideration of KVC Health Systems, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KVC Health Systems, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KVC Health Systems, Inc.'s internal control over financial reporting and compliance.

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Kansas City, Missouri
December 15, 2022

KVC Health Systems, Inc.
Consolidated Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,338,500	\$ 17,666,075
Investments	102,061	97,869
Accounts receivable	16,317,260	14,582,421
Unbilled receivables	2,682,481	2,686,081
Contributions receivable	1,842,149	244,200
Grants receivable	3,663,067	2,300,866
Prepaid expenses and other	1,253,864	1,260,560
Total current assets	32,199,382	38,838,072
Property and Equipment, Net	35,904,625	31,074,815
Contributions Receivable	104,396	230,390
Other Assets		
Goodwill	545,000	545,000
Funds held for deferred compensation	521,419	408,149
Deposits and other assets	458,154	270,974
	1,524,573	1,224,123
Total assets	\$ 69,732,976	\$ 71,367,400
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 1,761,129	\$ 7,528,881
Accounts payable	1,215,238	2,064,754
Accrued salaries	2,812,246	4,838,800
Accrued compensated absences	2,477,726	2,439,591
Other accrued expenses	6,269,718	3,773,555
Deferred revenue	324,300	292,802
Total current liabilities	14,860,357	20,938,383
Long-term Debt	5,889,104	12,340,407
Deferred Compensation Obligation	521,419	408,149
Total liabilities	21,270,880	33,686,939
Net Assets		
Without donor restrictions	46,062,375	36,669,294
With donor restrictions	2,399,721	1,011,167
Total net assets	48,462,096	37,680,461
Total liabilities and net assets	\$ 69,732,976	\$ 71,367,400

KVC Health Systems, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2022 and 2021

	2022	2021
Revenues, Gains and Other Support Without Donor Restrictions		
Reintegration and adoption services	\$ 32,397,400	\$ 33,714,997
Child placing services	39,970,567	43,424,864
Inpatient services	35,087,798	34,099,873
Family preservation, in-home and residential services	24,801,979	22,733,553
Contributions and grants	6,098,894	6,047,185
Investment income	9,789	81,367
Miscellaneous	7,199,009	3,603,546
Total revenues, gains and other support without donor restrictions	145,565,436	143,705,385
Operating Expenses		
Client care	129,868,573	123,986,197
Administrative and general	15,980,841	14,511,998
Fundraising	671,702	646,176
Total operating expenses	146,521,116	139,144,371
Operating Income (Loss)	(955,680)	4,561,014
Other Income		
Debt forgiveness income	5,969,627	553,330
Excess of Revenues Over Expenses	5,013,947	5,114,344
Contributions and grants received for property acquisitions	3,367,967	-
Net assets released from restrictions for property acquisitions	1,011,167	-
Change in Net Assets Without Donor Restrictions	9,393,081	5,114,344
Net Assets With Donor Restrictions		
Contributions received for property acquisitions	2,399,721	1,011,167
Net assets released from restrictions for property acquisitions	(1,011,167)	-
Change in Net Assets	10,781,635	6,125,511
Net Assets, Beginning of Year	37,680,461	31,554,950
Net Assets, End of Year	\$ 48,462,096	\$ 37,680,461

KVC Health Systems, Inc.
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 59,210,035	\$ 7,595,162	\$ 462,761	\$ 67,267,958
Payroll taxes	4,649,137	550,853	36,380	5,236,370
Employee benefits	9,634,398	1,040,874	49,342	10,724,614
Total salaries, wages and related expenses	73,493,570	9,186,889	548,483	83,228,942
Office supplies and printing	231,338	77,349	15,836	324,523
Copier and fax expense	215,661	24,713	-	240,374
Postage	66,099	26,275	1,728	94,102
Employee recruitment and advertising	290,410	86,081	100	376,591
Licenses and dues	116,649	188,892	19,694	325,235
Insurance	2,867,487	177,326	8,535	3,053,348
Travel	1,055,150	82,197	1,351	1,138,698
Telephone	1,000,341	143,683	4,869	1,148,893
Professional fees	502,660	989,423	-	1,492,083
Contract labor	1,068,125	25,152	-	1,093,277
Contract physicians	4,471,150	-	-	4,471,150
Contract unallowable expenses	290,609	735	-	291,344
Consulting and other contractual expenses	1,101,897	353,681	9,339	1,464,917
Staff development	479,414	471,906	894	952,214
Promotion	394,911	24,292	3,916	423,119
Office rent	1,796,374	93,090	26,612	1,916,076
Equipment expenses	1,023,148	1,380,275	4,954	2,408,377
Network services	188,576	298,060	-	486,636
Maintenance and repairs	642,536	124,798	1	767,335
Safety services and materials	287,185	44,586	161	331,932
Food	1,214,568	686	425	1,215,679
Food – outings	85,816	38,806	1,998	126,620
Housekeeping supplies	129,481	8,539	-	138,020
Miscellaneous housekeeping	1,070,780	68,182	-	1,138,962
Utilities	816,727	119,002	247	935,976
Payments to foster parents	30,266,298	-	23	30,266,321
Subcontractor – foster home payments	105,074	-	-	105,074
Foster family training	207,836	-	-	207,836
Child care payments	62,086	-	-	62,086
Medical supplies	822,595	131	-	822,726
Vehicle expenses and repairs	316,329	19,567	3,253	339,149
Vehicle rental	521,145	74,140	17,875	613,160
General program supplies	687,099	14,729	1,408	703,236
Clothing	33,126	-	-	33,126
Miscellaneous	58,059	41,934	-	99,993
Interest	22,034	530,701	-	552,735
Bad debts	10,621	-	-	10,621
Property tax expense	7,840	1,428	-	9,268
Medicaid assessments	14,643	-	-	14,643
Flex fund	1,187,924	-	-	1,187,924
Kids activity fund	43,202	-	-	43,202
Expenses before depreciation and intercompany fees	129,266,573	14,717,248	671,702	144,655,523
Depreciation	602,000	1,263,593	-	1,865,593
Intercompany management fees	-	13,467,493	-	13,467,493
Intercompany services	(344,508)	91,425	237,703	(15,380)
Intercompany rent	2,191,777	575,295	-	2,767,072
Eliminations	(1,847,269)	(14,134,213)	(237,703)	(16,219,185)
Totals, Year Ended June 30, 2022	\$ 129,868,573	\$ 15,980,841	\$ 671,702	\$ 146,521,116

KVC Health Systems, Inc.
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 55,843,324	\$ 6,435,857	\$ 424,887	\$ 62,704,068
Payroll taxes	4,445,847	460,490	32,138	4,938,475
Employee benefits	9,326,153	850,939	34,126	10,211,218
Total salaries, wages and related expenses	<u>69,615,324</u>	<u>7,747,286</u>	<u>491,151</u>	<u>77,853,761</u>
Office supplies and printing	213,860	61,404	6,456	281,720
Copier and fax expense	199,037	46,243	166	245,446
Postage	70,473	29,235	2,752	102,460
Employee recruitment and advertising	51,351	96,446	4,250	152,047
Licenses and dues	188,082	191,963	20,822	400,867
Insurance	2,750,285	130,168	691	2,881,144
Travel	482,328	24,317	80	506,725
Telephone	1,006,237	160,056	4,493	1,170,786
Professional fees	253,804	714,840	-	968,644
Contract labor	312,600	5,250	-	317,850
Contract physicians	3,954,361	-	-	3,954,361
Contract unallowable expenses	151,416	1,566	12	152,994
Consulting and other contractual expenses	1,114,954	518,954	17,058	1,650,966
Staff development	441,217	434,795	1,229	877,241
Promotion	102,231	19,886	-	122,117
Office rent	2,145,564	95,503	4,069	2,245,136
Equipment expenses	830,903	1,395,458	837	2,227,198
Network services	234,775	445,627	-	680,402
Maintenance and repairs	581,535	80,619	39	662,193
Safety services and materials	240,160	51,303	-	291,463
Food	1,099,985	20	-	1,100,005
Food – outings	58,716	10,709	656	70,081
Housekeeping supplies	125,719	4,484	-	130,203
Miscellaneous housekeeping	1,001,684	34,663	-	1,036,347
Utilities	673,683	124,192	288	798,163
Payments to foster parents	31,877,754	-	-	31,877,754
Subcontractor – foster home payments	91,199	-	-	91,199
Foster family training	154,832	-	-	154,832
Child care payments	54,189	-	-	54,189
Medical supplies	739,464	-	-	739,464
Vehicle expenses and repairs	327,373	10,728	3,157	341,258
Vehicle rental	635,012	64,596	9,500	709,108
General program supplies	723,633	(4,902)	1,821	720,552
Clothing	33,550	-	-	33,550
Miscellaneous	32,811	46,455	76,649	155,915
Interest	93,100	719,759	-	812,859
Bad debts	25,947	(30,724)	-	(4,777)
Property tax expense	7,504	319	-	7,823
Medicaid assessments	21,964	-	-	21,964
Flex fund	680,137	32	-	680,169
Kids activity fund	38,517	-	-	38,517
Expenses before depreciation and intercompany fees	<u>123,437,270</u>	<u>13,231,250</u>	<u>646,176</u>	<u>137,314,696</u>
Depreciation	548,927	1,280,748	-	1,829,675
Intercompany management fees	-	12,564,616	-	12,564,616
Intercompany services	2,650	62,822	-	65,472
Intercompany rent	1,777,823	566,400	-	2,344,223
Eliminations	<u>(1,780,473)</u>	<u>(13,193,838)</u>	<u>-</u>	<u>(14,974,311)</u>
Totals, Year Ended June 30, 2021	<u>\$ 123,986,197</u>	<u>\$ 14,511,998</u>	<u>\$ 646,176</u>	<u>\$ 139,144,371</u>

KVC Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Operating Activities		
Change in net assets	\$ 10,781,635	\$ 6,125,511
Items not requiring (providing) operating activities cash flows		
Depreciation	1,865,593	1,829,675
Debt forgiveness	(5,969,627)	(553,330)
Contributions and grants received for property acquisitions	(5,767,688)	(1,011,167)
Provision and discounts on contributions receivable	(5,606)	(30,724)
Unrealized (gains) losses on investments	14,976	(29,978)
Changes in		
Accounts receivable	(1,734,839)	4,211,977
Unbilled receivables	3,600	(2,686,081)
Grants receivable	(1,362,201)	186,671
Prepaid expenses and other current assets	6,696	(85,407)
Other assets	(187,180)	(76,038)
Accounts payable	(849,516)	241,912
Accrued salaries	(2,026,554)	478,730
Accrued compensated absences	38,135	19,670
Other accrued expenses	2,496,163	(3,526,345)
Net pension liability	-	(99,557)
Deferred revenue	31,498	(604,705)
	<u>(2,664,915)</u>	<u>4,390,814</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of property and equipment	(6,695,403)	(751,896)
Purchase of investments	(19,168)	(4,268)
	<u>(6,714,571)</u>	<u>(756,164)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from contributions and grants restricted for acquisition of long-lived assets	4,301,339	1,582,367
Proceeds from issuance of long-term debt	1,360,000	-
Principal payments on long-term debt	(7,609,428)	(8,820,479)
	<u>(1,948,089)</u>	<u>(7,238,112)</u>
Net cash used in financing activities		
Decrease in Cash and Cash Equivalents	(11,327,575)	(3,603,462)
Cash and Cash Equivalents, Beginning of Year	<u>17,666,075</u>	<u>21,269,537</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,338,500</u>	<u>\$ 17,666,075</u>
Supplemental Cash Flows Information		
Interest paid	\$ 463,882	\$ 806,929

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

KVC Health Systems, Inc. is the sole corporate member of the following affiliates, collectively referred to as the Organization:

KVC Behavioral HealthCare, Inc.

KVC Behavioral HealthCare, Inc. is a Kansas not-for-profit organization headquartered in Olathe, Kansas. It provides an integrated array of programs for emotionally and behaviorally impaired, abused, neglected, runaway and homeless youth, ages birth to twenty-one, and their families.

KVC Behavioral Healthcare West Virginia, Inc.

KVC Behavioral Healthcare West Virginia, Inc. is a West Virginia not-for-profit organization headquartered in Charleston, West Virginia, whose mission and principal activities are to provide an integrated array of programs for emotionally and behaviorally impaired, abused, neglected, runaway and homeless youth, ages birth to twenty-one, and their families.

KVC Behavioral Healthcare Kentucky, Inc.

KVC Behavioral Healthcare Kentucky, Inc. is a Kentucky not-for-profit organization headquartered in Lexington, Kentucky, whose mission and principal activities are to provide mental health, educational and case management services to children with mental health needs who are either placed in out-of-home care, hospitalized or who are facing imminent removal from their biological home in the state of Kentucky.

KVC Behavioral Healthcare Nebraska, Inc.

KVC Behavioral Healthcare Nebraska, Inc. is a Nebraska not-for-profit organization headquartered in Omaha, Nebraska, whose mission and principal activities are to provide service coordination, foster care, family preservation and supportive mental health services to the children and families of Nebraska.

KVC Hospitals, Inc.

KVC Hospitals, Inc. is a Kansas not-for-profit organization headquartered in Olathe, Kansas, whose mission and principal activities are to provide psychiatric care to children and adolescents out of facilities in Kansas City, Kansas, Wichita, Kansas and Hays, Kansas.

KVC Foundation, Inc.

KVC Foundation, Inc. is a Kansas not-for-profit organization in Olathe, Kansas. The Foundation was created to establish an endowment and provide fundraising activities to support the programs of KVC Health Systems, Inc. and its affiliates.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

KVC Behavioral Healthcare Missouri, Inc.

KVC Behavioral Healthcare Missouri, Inc. (previously The Niles Home for Children, Inc.) is a Missouri not-for-profit organization headquartered in Kansas City, Missouri, whose mission and principal activities are to provide mental health and education services to high-risk children and families, empowering them to become confident and contributing citizens. KVC Behavioral Healthcare Missouri, Inc. operates The Niles Home for Children.

The accompanying consolidated financial statements include the accounts of KVC Health Systems, Inc. and its affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2022 and 2021, cash equivalents consisted primarily of money market accounts with banks. The Organization held approximately \$223,000 and \$2,352,000 of cash in payroll accounts as of June 30, 2022 and 2021, respectively, to fund payroll obligations scheduled to occur within two days following year end.

At June 30, 2022, the Organization's cash accounts exceeded federally insured limits by approximately \$243,000.

Accounts Receivable

Accounts receivable includes accounts receivable under Topic 606 (accounts receivable under Topic 606) and ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (accounts receivable under Topic 958).

Accounts receivable under Topic 606 reflects the outstanding amount of consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs) and others. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Accounts receivable under Topic 606 are due in full when billed.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Accounts receivable under Topic 958 are stated at the net realizable value, which is the amount management expects to collect from outstanding balances. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable under Topic 958 are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Bad debt expense was not significant for the years ended June 30, 2022 and 2021.

The composition of accounts receivable and unbilled receivables is as follows:

	2022	2021
Accounts receivable under Topic 606	\$ 5,817,017	\$ 4,109,604
Accounts receivable under Topic 958	10,500,243	10,472,817
Total accounts receivable	16,317,260	14,582,421
Unbilled receivables under Topic 606	2,682,481	2,686,081
Total accounts receivable and unbilled receivables	\$ 18,999,741	\$ 17,268,502

Contract Assets – Unbilled Receivables

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care at the end of the year. Contract assets are included in unbilled receivables at June 30, 2022 and 2021.

Investments

Investments in equity securities having a readily determinable fair value are carried at fair value. Investment return includes interest income on investments carried at fair value and is reflected in the consolidated statements of activities. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Net Investment Return

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment acquisitions over \$3,000 are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	5-40 years
Furniture and equipment	5-10 years
Computer equipment and vehicles	5 years

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2022 and 2021.

Inpatient Services Revenue

Inpatient services revenue is recognized as the Organization satisfies performance obligations under its contract with patients. Inpatient services revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Organization's policies and implicit price concessions provided to uninsured patients.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The Organization determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payer groups. The Organization determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payers.

Charity Care

The Organization provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Organization does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient service revenue.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Net assets without donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Contributions and Grants

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restrictions</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restrictions</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Collected in future years

Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Goodwill

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Deferred Revenue

Revenue from contracts, grants and other miscellaneous fees is deferred and recognized over the periods in which the services are performed.

Professional Liability Coverage and Claims

The Organization purchases professional liability insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require an organization to accrue the expense of its share of professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents.

Based upon the Organization's claims experience, an accrual had been made for the Organization's estimated professional liability costs, including costs associated with litigating or settling claims, under its professional liability policy, amounting to \$3,197,835 and \$2,383,323 as of June 30, 2022 and 2021, respectively. It is reasonably possible that this estimate could change materially in the near term.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The Organization recorded in accounts receivable on the consolidated statements of financial position \$2,900,674 and \$2,383,323 as of June 30, 2022 and 2021, respectively, of professional liability reserve insurance coverage receivables.

Government Grants

Support funded by grants is recognized as the Organization performs the contracted service or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the client care, administrative and general and fundraising categories based on time expended, usage and other methods.

Excess of Revenues Over Expenses

The consolidated statements of activities include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Note 2: Inpatient Services Revenue

Inpatient services revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services or patients receiving emergent care services. The Organization measures the performance obligation from inpatient admission, or the commencement of an emergent service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the emergent services.

Transaction Price

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Organization's contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Financing Component

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time the patient or a third-party payer pays for that service will be one year or less.

However, the Organization does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Contract Costs

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration.

Third-Party Payers

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Medicaid. The Organization is reimbursed on a prospective payment methodology for services rendered to beneficiaries.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts that the Organization has with commercial payers also provide for retroactive audit and review of claims.

Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations.

Refund Liabilities

From time to time the Organization will receive overpayments of patient balances from third-party payers or patients resulting in amounts owed back to either the patients or third-party payers. At June 30, 2022 and 2021, \$430,805 and \$171,353 are included in accounts payable on the consolidated statements of financial position, respectively.

Patient and Uninsured Payers

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Patients who meet the Organization’s criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient’s ability to pay are recorded as bad debt expense.

Revenue Composition

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payers (for example, Medicaid, other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient’s service or episode of care

For the years ended June 30, 2022 and 2021, the Organization recognized inpatient services revenue of \$35,087,798 and \$34,099,872, respectively, all of which were from services that transfer to the patient over time.

The composition of inpatient services revenue by primary payer for the years ended June 30, 2022 and 2021, were approximately:

	2022	2021
Medicaid	\$ 22,109,214	\$ 23,031,218
Blue Cross Blue Shield	4,080,893	4,463,437
Other third-party payers	8,705,910	6,347,479
Self-pay	191,781	257,739
Total	\$ 35,087,798	\$ 34,099,873

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 3: Revenue Concentrations – KVC Behavioral HealthCare, Inc.

Effective October 1, 2019, the Kansas Department for Children and Families (DCF) restructured the Organization’s contracts into grants for Foster Care Reintegration Services. DCF changed from contracts for each of their four regions to grants for each of the eight catchment areas within the four regions. KVC Kansas was awarded Case Management grants for two of the eight Reintegration catchment areas, compared to their previous contracts for two of the four regions.

Revenues for the Foster Care Reintegration Services from DCF amounted to \$31,058,899 and \$32,995,030, which represents 21 percent and 23 percent of the Organization’s revenues, gains and support without donor restrictions for the years ended June 30, 2022 and 2021, respectively. Accounts receivable related to the Foster Care Reintegration Services grants amounted to \$3,544,010 and \$3,975,627 at June 30, 2022 and 2021, respectively.

Effective October 1, 2019, the Organization was awarded a separate Child Placing Agency Services grant from DCF for the period October 1, 2019 through June 30, 2023, with two additional two-year renewal options. Revenues from the Child Placing Agency Services grant amounted to \$25,824,366 and \$27,117,492, which represents 18 percent and 19 percent of the Organization’s revenues, gains and support without donor restrictions for the years ended June 30, 2022 and 2021, respectively.

Note 4: Contributions Receivable

Contributions receivable consisted of the following at a discount rate of 5.00 percent:

	<u>2022</u>	<u>2021</u>
Due within one year	\$ 1,842,149	\$ 244,200
Due in one to five years	111,000	242,600
	<u>1,953,149</u>	<u>486,800</u>
Less		
Unamortized discount	<u>(6,604)</u>	<u>(12,210)</u>
	<u>\$ 1,946,545</u>	<u>\$ 474,590</u>

The Organization has received the following conditional promises to give at June 30, 2022 and 2021 that are not recognized in the consolidated financial statements.

	<u>2022</u>	<u>2021</u>
Conditional grants and contributions upon providing eligible services	<u>\$ 68,959,551</u>	<u>\$ 74,135,136</u>

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 5: Property and Equipment

Property and equipment at June 30 consists of:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 1,409,201	\$ 1,409,201
Buildings and leasehold improvements	42,536,339	39,582,606
Furniture and equipment	6,402,434	6,255,933
Works of art	109,398	109,398
Computer equipment	6,287,065	6,283,973
Vehicles	301,560	251,681
Construction in progress	3,697,743	155,546
	<u>60,743,740</u>	<u>54,048,338</u>
Less accumulated depreciation and amortization	24,839,115	22,973,523
	<u>\$ 35,904,625</u>	<u>\$ 31,074,815</u>

Note 6: Long-term Debt

	<u>2022</u>	<u>2021</u>
Notes payable, bank (A)	\$ -	\$ 4,905,216
Notes payable, bank (B)	-	781,907
Notes payable, bank (C)	925,424	-
Notes payable, bank (D)	6,724,809	7,198,065
Notes payable, bank (E)	-	6,984,100
	<u>7,650,233</u>	<u>19,869,288</u>
Less current maturities	1,761,129	7,528,881
	<u>\$ 5,889,104</u>	<u>\$ 12,340,407</u>

- (A) Initially due February 25, 2021; payable \$39,482 monthly and one irregular last payment, including interest at 5.00 percent; collateralized by real estate. This was extended in 2021, with a new maturity date of May 1, 2026; payable \$39,482 monthly and one irregular last payment, including interest at 4.00 percent; collateralized by real estate. This loan was paid off in 2022.
- (B) Due August 15, 2022; payable \$5,873 monthly and one irregular last payment, including interest at 4.90 percent; collateralized by real estate. This loan was paid off in 2022.
- (C) Due October 22, 2026; payable \$76,002 monthly (\$8,102 scheduled payment plus an elected \$67,900 extra payment) and one irregular last payment, including interest at 3.75 percent; collateralized by real estate.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

- (D) Due March 30, 2025; payable \$49,795 monthly and one irregular last payment, including interest at 5.14 percent; collateralized by real estate.
- (E) Due April 18, 2022; this balance consists of notes payable as part of the Paycheck Protection Program (PPP), set up by the United States Small Business Administration (SBA) as allocated in the CARES Act; payable in monthly amounts ranging from \$26,535 to \$179,152, including interest at 1.00 percent.

During 2022, the Organization paid back a portion of one loan to the SBA, which totaled \$1,103,326. Additionally, \$5,969,627 was forgiven, which included interest.

KVC Hospitals, Inc. unconditionally guarantees the indebtedness of KVC Foundation, Inc. for outstanding notes payable (A), (B), (C) and (D) above.

Aggregate annual maturities of long-term debt and payments at June 30, 2022 are:

2023	\$ 1,761,129
2024	1,074,588
2025	<u>4,814,516</u>
	<u><u>\$ 7,650,233</u></u>

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 7: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022 and 2021, comprise the following:

	<u>2022</u>	<u>2021</u>
Financial assets at year end		
Cash and cash equivalents	\$ 6,338,500	\$ 17,666,075
Investments	102,061	97,869
Accounts receivable	16,317,260	14,582,421
Unbilled receivables	2,682,481	2,686,081
Contributions receivable	1,946,545	474,590
Grants receivable	<u>3,663,067</u>	<u>2,300,866</u>
Total financial assets	<u>31,049,914</u>	<u>37,807,902</u>
Less amounts with donor-imposed restrictions		
Financial assets subject to expenditure for specified purpose	<u>(2,399,721)</u>	<u>(1,011,167)</u>
Net financial assets after donor-imposed restrictions	<u>28,650,193</u>	<u>36,796,735</u>
Less amounts due after one year		
Contributions receivable	<u>(104,396)</u>	<u>(230,390)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 28,545,797</u>	<u>\$ 36,566,345</u>

As part of the Organization's liquidity management plan, management reviews cash and investment balances regularly and compares those to monthly operational requirements.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 8: Investments and Investment Return

Investments include:

	2022	2021
Mutual funds	\$ 537,069	\$ 416,329
Corporate stocks	67,006	64,952
Exchange-traded funds	19,405	24,737
	<u>\$ 623,480</u>	<u>\$ 506,018</u>

Investments are presented in the consolidated statements of financial position as follows:

	2022	2021
Investments	\$ 102,061	\$ 97,869
Funds held for deferred compensation	521,419	408,149
	<u>\$ 623,480</u>	<u>\$ 506,018</u>

Total investment return comprised of the following:

	2022	2021
Interest and dividend income	\$ 24,765	\$ 51,389
Unrealized gains (losses) on investments	(14,976)	29,978
	<u>\$ 9,789</u>	<u>\$ 81,367</u>

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 9: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2022 and 2021:

	June 30, 2022			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 537,069	\$ 537,069	\$ -	\$ -
Corporate stocks	67,006	67,006	-	-
Exchange-traded funds	19,405	19,405	-	-
	<u>\$ 623,480</u>	<u>\$ 623,480</u>	<u>\$ -</u>	<u>\$ -</u>

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

	June 30, 2021			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds	\$ 416,329	\$ 416,329	\$ -	\$ -
Corporate stocks	64,952	64,952	-	-
Exchange-traded funds	24,737	24,737	-	-
	\$ 506,018	\$ 506,018	\$ -	\$ -

Note 10: Retirement Plans

Defined Contribution Plan

The Organization has a defined contribution plan (the Plan) covering all full-time employees who are at least 21 years of age. Participants are immediately vested in their voluntary contributions, while vesting in the Organization's contributions is based on years of continuous service, with a participant becoming fully vested after one year of continuous service. Each year, the board of directors determines the amount of the matching contribution to the Plan. Total expenses for the years ended June 30, 2022 and 2021 were approximately \$1,274,000 and \$1,586,000, respectively.

Defined Benefit Plan

KVC Behavioral Healthcare Missouri, Inc. (KVC Missouri) has a noncontributory defined benefit pension plan (the Plan) covering all full-time employees of KVC Missouri (formerly The Niles Home for Children, Inc.) with one year or more of continuous service prior to the Plan being frozen effective February 28, 2005. The Organization's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Organization may determine to be appropriate from time to time. The Plan has a plan year which ends on December 31. The Organization expects to contribute \$87,000 to the Plan in the plan year ending December 31, 2022.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The Organization uses a December 31 measurement date for the Plan. Information about the Plan's funded status follows:

	December 31, 2022	December 31, 2021
Benefit obligation	\$ (1,693,926)	\$ (1,726,120)
Fair value of plan assets	2,063,427	1,799,588
Funded status	\$ 369,501	\$ 73,468

The benefit obligation is calculated based on a discount rate of 2.6 percent and 2.3 percent for the periods ended December 31, 2021 and 2020, respectively. The expected return on plan assets of 8.0 percent for both periods ended December 31, 2021 and 2020 was calculated using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – *Selection Economic Assumptions for Measuring Pension Obligations*. Plan assets consist of equity and fixed income investments.

Net benefit asset of \$369,501 and \$73,468 is recorded in the consolidated statements of financial position within prepaid expenses and other at June 30, 2022 and 2021, respectively, based on management's opinion that there has not been a material change to the net benefit asset for the periods December 31, 2021 to June 30, 2022 or December 31, 2020 to June 30, 2021.

Deferred Compensation Plan

The Organization sponsors a Section 457(b) deferred compensation plan, effective July 1, 2019, for executive staff. The Plan has a plan year which ends on December 31. Total payments into the plan for the years ended June 30, 2022 and 2021 was \$214,000 and \$177,000, respectively.

Note 11: Operating Leases

Noncancellable operating leases for office space expire in various years through 2027. These leases generally contain renewal options for periods ranging from one to five years and require the Organization to pay all executory costs (property taxes, maintenance and insurance). Total rental expense for property leases for the years ended June 30, 2022 and 2021 was \$1,916,076 and \$2,245,136, respectively.

Noncancellable operating leases for equipment and vehicles expire in various years through 2025. Total rental expense for equipment and vehicles leases for the years ended June 30, 2022 and 2021 was \$828,533 and \$928,313, respectively.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Future minimum lease payments at June 30, 2022 were:

	Equipment and Vehicles	Property	Total
2023	\$ 106,067	\$ 1,980,383	\$ 2,086,450
2024	7,638	1,414,515	1,422,153
2025	786	308,414	309,200
2026	-	32,796	32,796
2027	-	27,330	27,330
	<u>\$ 114,491</u>	<u>\$ 3,763,438</u>	<u>\$ 3,877,929</u>

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Variable Consideration

Estimates of variable consideration (implicit and explicit price concessions) in determining the transaction price for inpatient services revenue are described in *Notes 1* and *2*.

Litigation

The Organization is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Organization. Events could occur that would change this estimate materially in the near term.

Note 13: COVID-19 Pandemic & CARES Act Funding

The Organization's pandemic response plan is multi-faceted and continues to evolve as the effects of the pandemic continues to change as a result of individuals becoming vaccinated and new variants of the virus arise. The Organization has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic continues to present to its business.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The extent of the COVID-19 pandemic's adverse effect on the Organization's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Organization's control and ability to forecast. Such factors include, but are not limited to, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Organization cannot estimate the length or severity of the effect of the pandemic on the Organization's business. Decreases in cash flows and results of operations may have an effect on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During the year ended June 30, 2022 and 2021, the Organization received approximately \$629,000 and \$1,156,000 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security* ("CARES") Act (collectively referred to as the Provider Relief Fund). These distributions from the Provider Relief Fund (PRF) are not subject to repayment, provided the Organization is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the United States Department of Health and Human Services (HHS).

The Organization is accounting for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the PRF and the effect of the pandemic on the Organization's operating results through June 30, 2022 and 2021, the Organization recognized \$629,297 and \$1,155,675, respectively, related to the PRF, and these payments are recorded as miscellaneous operating revenue in the accompanying consolidated statements of activities.

Clarifying guidance on the terms and conditions has been periodically updated by HHS. As a result, the amounts recorded in the consolidated financial statements compared to the Organization's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

The Organization will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on the Organization's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Organization is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be impacted.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 14: Future Change in Accounting Principle

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Organization is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 15: Subsequent Events

Subsequent events have been evaluated through December 15, 2022, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

KVC Health Systems, Inc.
Consolidating Schedule of Financial Position
June 30, 2022

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Behavioral Healthcare Missouri, Inc.	Eliminations	Consolidated
Assets										
Current Assets										
Cash and cash equivalents	\$ 2,529,414	\$ 95,342	\$ 433,174	\$ 153,283	\$ 382,127	\$ 299,575	\$ 1,569,646	\$ 875,939		\$ 6,338,500
Investments	102,061	-	-	-	-	-	-	-		102,061
Accounts receivable	2,900,958	4,220,719	859,843	306,977	1,218,904	5,817,017	6,000	986,842		16,317,260
Unbilled receivables	-	-	-	-	-	2,682,481	-	-		2,682,481
Due to/from affiliate	1,450,328	(331,569)	(121,505)	(231,651)	(83,421)	(506,284)	(84,844)	(91,054)		-
Contributions receivable	-	-	-	-	-	-	1,842,149	-		1,842,149
Grants receivable	6,750	262,199	-	3,267,761	73,857	-	-	52,500		3,663,067
Prepaid expenses and other	859,647	76,909	52,030	67,988	36,256	125,720	27,279	8,035		1,253,864
Total current assets	7,849,158	4,323,600	1,223,542	3,564,358	1,627,723	8,418,509	3,360,230	1,832,262		32,199,382
Property and Equipment, Net	410,124	746,755	220,263	14,156	159,187	4,686,167	25,706,892	3,961,081		35,904,625
Contributions Receivable	-	-	-	-	-	-	104,396	-		104,396
Other Assets										
Goodwill	-	-	-	545,000	-	-	-	-		545,000
Funds held for deferred compensation	521,419	-	-	-	-	-	-	-		521,419
Deposits and other assets	-	36,063	3,325	24,265	-	20,000	5,000	369,501		458,154
	521,419	36,063	3,325	569,265	-	20,000	5,000	369,501		1,524,573
Total assets	\$ 8,780,701	\$ 5,106,418	\$ 1,447,130	\$ 4,147,779	\$ 1,786,910	\$ 13,124,676	\$ 29,176,518	\$ 6,162,844	\$ -	\$ 69,732,976

KVC Health Systems, Inc.
Consolidating Schedule of Financial Position (Continued)
June 30, 2022

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Behavioral Healthcare Missouri, Inc.	Eliminations	Consolidated
Liabilities and Net Assets										
Current Liabilities										
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,761,129	\$ -		\$ 1,761,129
Accounts payable	(8,590)	840,019	(58,140)	(17,015)	271,960	189,806	-	(2,802)		1,215,238
Accrued salaries	294,979	920,640	203,730	463,260	104,240	686,922	-	138,475		2,812,246
Accrued compensated absences	211,143	838,315	185,751	353,076	122,735	651,452	11,374	103,880		2,477,726
Other accrued expenses	3,164,395	379,263	451,948	224,027	189,179	1,704,672	35,113	121,121		6,269,718
Deferred revenue	-	32,922	81,011	-	102,627	-	45,000	62,740		324,300
Total current liabilities	3,661,927	3,011,159	864,300	1,023,348	790,741	3,232,852	1,852,616	423,414		14,860,357
Long-term Debt	-	-	-	-	-	-	5,889,104	-		5,889,104
Deferred Compensation Obligation	521,419	-	-	-	-	-	-	-		521,419
Total liabilities	4,183,346	3,011,159	864,300	1,023,348	790,741	3,232,852	7,741,720	423,414		21,270,880
Net Assets										
Without donor restrictions	4,597,355	2,095,259	582,830	3,124,431	996,169	9,891,824	19,035,077	5,739,430		46,062,375
With donor restrictions	-	-	-	-	-	-	2,399,721	-		2,399,721
Total net assets	4,597,355	2,095,259	582,830	3,124,431	996,169	9,891,824	21,434,798	5,739,430		48,462,096
Total liabilities and net assets	\$ 8,780,701	\$ 5,106,418	\$ 1,447,130	\$ 4,147,779	\$ 1,786,910	\$ 13,124,676	\$ 29,176,518	\$ 6,162,844	\$ -	\$ 69,732,976

KVC Health Systems, Inc.
Consolidating Schedule of Activities
Year Ended June 30, 2022

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Behavioral Healthcare Missouri, Inc.	Eliminations	Consolidated
Revenues, Gains and Other Support Without Donor Restrictions										
Reintegration and adoption services	\$ -	\$ 31,144,462	\$ -	\$ -	\$ 53,964	\$ -	\$ -	\$ 1,198,974	\$ -	\$ 32,397,400
Child placing services	-	25,738,803	8,114,389	207,815	5,861,486	-	-	48,074	-	39,970,567
Inpatient services	-	-	-	-	-	35,087,798	-	-	-	35,087,798
Family preservation, in-home and residential services	-	607,349	2,698,967	12,045,044	5,822,243	-	-	3,628,376	-	24,801,979
Contributions and grants	72,984	1,788,849	279,338	2,044,453	402,625	220,815	648,307	641,523	-	6,098,894
Investment income (loss)	(10,302)	2,287	1,662	1,819	1,043	11,956	637	687	-	9,789
Miscellaneous	586,248	640,759	114,127	1,722,562	4,143	3,797,214	-	333,956	-	7,199,009
Management fee	13,467,493	-	-	-	-	-	-	-	(13,467,493)	-
Intercompany services	162,744	(84,648)	(26,498)	(165,243)	(26,498)	(19,961)	166,384	(21,660)	15,380	-
Intercompany rent	-	-	-	-	-	-	2,767,072	-	(2,767,072)	-
Total revenues, gains and other support without donor restrictions	14,279,167	59,837,861	11,181,985	15,856,450	12,119,006	39,097,822	3,582,400	5,829,930	(16,219,185)	145,565,436
Operating Expenses										
Client care	-	54,556,860	10,366,081	14,807,731	11,263,285	35,576,360	-	5,145,525	(1,847,269)	129,868,573
Administrative and general	14,257,818	5,499,729	987,754	1,675,900	808,302	4,381,846	2,087,870	415,835	(14,134,213)	15,980,841
Fundraising	-	-	-	-	-	-	909,405	-	(237,703)	671,702
Total operating expenses	14,257,818	60,056,589	11,353,835	16,483,631	12,071,587	39,958,206	2,997,275	5,561,360	(16,219,185)	146,521,116
Operating Income (Loss)	21,349	(218,728)	(171,850)	(627,181)	47,419	(860,384)	585,125	268,570	-	(955,680)
Other Income (Expense)										
Debt forgiveness income	-	-	1,228,142	1,028,716	-	3,233,804	-	478,965	-	5,969,627
Intercompany transfers	81,579	(700,000)	(2,159,000)	3,126	(797,400)	(3,333,400)	6,556,595	348,500	-	-
Excess (Deficiency) of Revenues Over Expenses	102,928	(918,728)	(1,102,708)	404,661	(749,981)	(959,980)	7,141,720	1,096,035	-	5,013,947
Contributions and grants received for property acquisitions	-	-	-	-	-	3,062,002	305,965	-	-	3,367,967
Net assets released from restrictions for property acquisitions	-	-	-	-	-	-	1,011,167	-	-	1,011,167
Change in Net Assets Without Donor Restrictions	102,928	(918,728)	(1,102,708)	404,661	(749,981)	2,102,022	8,458,852	1,096,035	-	9,393,081
Net Assets With Donor Restrictions										
Contributions received for property acquisitions	-	-	-	-	-	-	2,399,721	-	-	2,399,721
Net assets released from restrictions for property acquisitions	-	-	-	-	-	-	(1,011,167)	-	-	(1,011,167)
Change in Net Assets	102,928	(918,728)	(1,102,708)	404,661	(749,981)	2,102,022	9,847,406	1,096,035	-	10,781,635
Net Assets, Beginning of Year	4,494,427	3,013,987	1,685,538	2,719,770	1,746,150	7,789,802	11,587,392	4,643,395	-	37,680,461
Net Assets, End of Year	\$ 4,597,355	\$ 2,095,259	\$ 582,830	\$ 3,124,431	\$ 996,169	\$ 9,891,824	\$ 21,434,798	\$ 5,739,430	\$ -	\$ 48,462,096

KVC Health Systems, Inc.
Consolidating Schedule of Financial Position
June 30, 2021

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Behavioral Healthcare Missouri, Inc.	Eliminations	Consolidated
Assets										
Current Assets										
Cash and cash equivalents	\$ 3,388,890	\$ 1,135,879	\$ 1,750,588	\$ 3,165,179	\$ 1,359,810	\$ 5,635,927	\$ 10,438	\$ 1,219,364		\$ 17,666,075
Investments	97,869	-	-	-	-	-	-	-		97,869
Accounts receivable	2,383,929	4,451,322	1,885,250	296,693	1,081,888	4,109,604	-	373,735		14,582,421
Unbilled receivables	-	-	-	-	-	2,686,081	-	-		2,686,081
Due to/from affiliate	801,309	(241,459)	(95,228)	(143,796)	(42,452)	(229,294)	(19,310)	(29,770)		-
Contributions receivable	-	-	-	-	-	-	244,200	-		244,200
Grants receivable	23,713	112,963	7,920	2,107,796	48,474	-	-	-		2,300,866
Prepaid expenses and other	754,089	213,564	25,276	60,352	44,368	121,041	32,278	9,592		1,260,560
Total current assets	7,449,799	5,672,269	3,573,806	5,486,224	2,492,088	12,323,359	267,606	1,572,921		38,838,072
Property and Equipment, Net	560,736	695,544	172,546	23,032	29,936	1,725,688	24,054,552	3,812,781		31,074,815
Contributions Receivable	-	-	-	-	-	-	230,390	-		230,390
Other Assets										
Goodwill	-	-	-	545,000	-	-	-	-		545,000
Funds held for deferred compensation	408,149	-	-	-	-	-	-	-		408,149
Deposits and other assets	-	154,456	-	18,050	-	20,000	5,000	73,468		270,974
	408,149	154,456	-	563,050	-	20,000	5,000	73,468		1,224,123
Total assets	\$ 8,418,684	\$ 6,522,269	\$ 3,746,352	\$ 6,072,306	\$ 2,522,024	\$ 14,069,047	\$ 24,557,548	\$ 5,459,170	\$ -	\$ 71,367,400

KVC Health Systems, Inc.
Consolidating Schedule of Financial Position (Continued)
June 30, 2021

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Behavioral Healthcare Missouri, Inc.	Eliminations	Consolidated
Liabilities and Net Assets										
Current Liabilities										
Current maturities of long-term debt	\$ -	\$ -	\$ 1,209,000	\$ 2,120,200	\$ -	\$ 3,183,400	\$ 544,781	\$ 471,500		\$ 7,528,881
Accounts payable	153,397	955,084	228,299	52,954	316,843	315,643	43	42,491		2,064,754
Accrued salaries	506,003	1,461,145	313,075	717,755	197,367	1,469,598	-	173,857		4,838,800
Accrued compensated absences	218,315	851,484	178,435	361,407	149,641	610,131	-	70,178		2,439,591
Other accrued expenses	2,638,393	195,220	37,419	100,220	38,156	700,473	5,925	57,749		3,773,555
Deferred revenue	-	45,349	94,586	-	73,867	-	79,000	-		292,802
Total current liabilities	3,516,108	3,508,282	2,060,814	3,352,536	775,874	6,279,245	629,749	815,775		20,938,383
Long-term Debt	-	-	-	-	-	-	12,340,407	-		12,340,407
Deferred Compensation Obligation	408,149	-	-	-	-	-	-	-		408,149
Total liabilities	3,924,257	3,508,282	2,060,814	3,352,536	775,874	6,279,245	12,970,156	815,775		33,686,939
Net Assets										
Without donor restrictions	4,494,427	3,013,987	1,685,538	2,719,770	1,746,150	7,789,802	10,576,225	4,643,395		36,669,294
With donor restrictions	-	-	-	-	-	-	1,011,167	-		1,011,167
Total net assets	4,494,427	3,013,987	1,685,538	2,719,770	1,746,150	7,789,802	11,587,392	4,643,395		37,680,461
Total liabilities and net assets	\$ 8,418,684	\$ 6,522,269	\$ 3,746,352	\$ 6,072,306	\$ 2,522,024	\$ 14,069,047	\$ 24,557,548	\$ 5,459,170	\$ -	\$ 71,367,400

KVC Health Systems, Inc.
Consolidating Schedule of Activities
Year Ended June 30, 2021

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Behavioral Healthcare Missouri, Inc.	Eliminations	Consolidated
Revenues, Gains and Other Support Without Donor Restrictions										
Reintegration and adoption services	\$ -	\$ 32,995,030	\$ -	\$ -	\$ 47,512	\$ -	\$ -	\$ 672,455	\$ -	\$ 33,714,997
Child placing services	-	27,117,492	9,079,203	429,475	6,798,694	-	-	-	-	43,424,864
Inpatient services	-	-	-	-	-	34,099,873	-	-	-	34,099,873
Family preservation/in-home services	-	863,018	1,608,633	11,213,868	6,261,495	-	-	2,786,539	-	22,733,553
Contributions and grants	22,163	1,462,067	133,303	2,718,336	515,559	283,369	592,012	320,376	-	6,047,185
Investment income	33,768	3,456	1,766	2,659	1,100	37,363	565	690	-	81,367
Miscellaneous	521,936	382,880	8,241	367,788	3,830	2,130,586	-	188,285	-	3,603,546
Management fee	12,564,616	-	-	-	-	-	-	-	(12,564,616)	-
Intercompany services	62,822	(36,550)	-	-	-	39,200	-	-	(65,472)	-
Intercompany rent	-	-	-	-	-	-	2,344,223	-	(2,344,223)	-
Total revenues, gains and other support without donor restrictions	13,205,305	62,787,393	10,831,146	14,732,126	13,628,190	36,590,391	2,936,800	3,968,345	(14,974,311)	143,705,385
Operating Expenses										
Client care	-	53,405,295	9,801,363	13,662,098	11,727,243	33,356,829	-	3,813,842	(1,780,473)	123,986,197
Administrative and general	12,744,365	5,514,799	1,001,537	1,404,379	1,192,374	3,089,269	2,389,484	369,629	(13,193,838)	14,511,998
Fundraising	574,309	-	-	-	-	-	71,867	-	-	646,176
Total operating expenses	13,318,674	58,920,094	10,802,900	15,066,477	12,919,617	36,446,098	2,461,351	4,183,471	(14,974,311)	139,144,371
Operating Income (Loss)	(113,369)	3,867,299	28,246	(334,351)	708,573	144,293	475,449	(215,126)	-	4,561,014
Other Income (Expense)										
Debt forgiveness income	-	-	-	-	553,330	-	-	-	-	553,330
Intercompany transfers	(10,870,000)	4,965,000	1,870,000	3,300,000	250,000	(3,465,000)	4,500,000	(550,000)	-	-
Excess (Deficiency) of Revenues Over Expenses	(10,983,369)	8,832,299	1,898,246	2,965,649	1,511,903	(3,320,707)	4,975,449	(765,126)	-	5,114,344
Net Assets With Donor Restrictions										
Contributions received for property acquisitions	-	-	-	-	-	-	1,011,167	-	-	1,011,167
Change in Net Assets	(10,983,369)	8,832,299	1,898,246	2,965,649	1,511,903	(3,320,707)	5,986,616	(765,126)	-	6,125,511
Net Assets, Beginning of Year	15,477,796	(5,818,312)	(212,708)	(245,879)	234,247	11,110,509	5,600,776	5,408,521	-	31,554,950
Net Assets, End of Year	\$ 4,494,427	\$ 3,013,987	\$ 1,685,538	\$ 2,719,770	\$ 1,746,150	\$ 7,789,802	\$ 11,587,392	\$ 4,643,395	\$ -	\$ 37,680,461

KVC Health Systems, Inc.
Functional Expenses – KVC Health Systems, Inc.
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ -	\$ 7,320,645	\$ -	\$ 7,320,645
Payroll taxes	-	530,896	-	530,896
Employee benefits	-	986,905	-	986,905
Total salaries, wages and related expenses	-	8,838,446	-	8,838,446
Office supplies and printing	-	76,013	-	76,013
Copier and fax expense	-	24,156	-	24,156
Postage	-	25,592	-	25,592
Employee recruitment and advertising	-	85,913	-	85,913
Licenses and dues	-	61,408	-	61,408
Insurance	-	177,299	-	177,299
Travel	-	75,764	-	75,764
Telephone	-	135,377	-	135,377
Professional fees	-	985,171	-	985,171
Contract labor	-	25,152	-	25,152
Contract physicians	-	-	-	-
Contract unallowable expenses	-	-	-	-
Consulting and other contractual expenses	-	349,813	-	349,813
Staff development	-	468,465	-	468,465
Promotion	-	24,142	-	24,142
Office rent	-	1	-	1
Equipment expenses	-	1,371,750	-	1,371,750
Network services	-	295,593	-	295,593
Maintenance and repairs	-	53,152	-	53,152
Safety services and materials	-	1,041	-	1,041
Food	-	262	-	262
Food – outings	-	37,756	-	37,756
Housekeeping supplies	-	1,893	-	1,893
Miscellaneous housekeeping	-	45,309	-	45,309
Utilities	-	41,859	-	41,859
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Child care payments	-	-	-	-
Medical supplies	-	131	-	131
Vehicle expenses and repairs	-	18,058	-	18,058
Vehicle rental	-	73,866	-	73,866
General program supplies	-	13,876	-	13,876
Clothing	-	-	-	-
Miscellaneous	-	41,898	-	41,898
Interest	-	-	-	-
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	13,349,156	-	13,349,156
Depreciation and amortization	-	170,623	-	170,623
Intercompany management fees	-	-	-	-
Intercompany services	-	162,744	-	162,744
Intercompany rent	-	575,295	-	575,295
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2022	\$ -	\$ 14,257,818	\$ -	\$ 14,257,818

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral HealthCare, Inc.
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 21,231,690	\$ -	\$ -	\$ 21,231,690
Payroll taxes	1,669,825	-	-	1,669,825
Employee benefits	3,639,626	-	-	3,639,626
Total salaries, wages and related expenses	26,541,141	-	-	26,541,141
Office supplies and printing	39,549	-	-	39,549
Copier and fax expense	123,035	-	-	123,035
Postage	28,735	-	-	28,735
Employee recruitment and advertising	49,893	-	-	49,893
Licenses and dues	33,878	103,868	-	137,746
Insurance	1,193,589	-	-	1,193,589
Travel	539,121	-	-	539,121
Telephone	449,401	-	-	449,401
Professional fees	225,367	-	-	225,367
Contract labor	147,750	-	-	147,750
Contract physicians	426,817	-	-	426,817
Contract unallowable expenses	57,566	-	-	57,566
Consulting and other contractual expenses	526,570	-	-	526,570
Staff development	79,498	-	-	79,498
Promotion	159,642	-	-	159,642
Office rent	605,413	-	-	605,413
Equipment expenses	40,863	-	-	40,863
Network services	77,642	-	-	77,642
Maintenance and repairs	137,890	-	-	137,890
Safety services and materials	76,899	-	-	76,899
Food	45,405	-	-	45,405
Food – outings	9,317	-	-	9,317
Housekeeping supplies	11,797	-	-	11,797
Miscellaneous housekeeping	148,381	-	-	148,381
Utilities	292,792	-	-	292,792
Payments to foster parents	20,164,766	-	-	20,164,766
Subcontractor – foster home payments	105,074	-	-	105,074
Foster family training	97,735	-	-	97,735
Child care payments	62,086	-	-	62,086
Medical supplies	391	-	-	391
Vehicle expenses and repairs	132,441	-	-	132,441
Vehicle rental	251,143	-	-	251,143
General program supplies	247,798	-	-	247,798
Clothing	(250)	-	-	(250)
Miscellaneous	3,406	-	-	3,406
Interest	-	-	-	-
Bad debts	(53,379)	-	-	(53,379)
Property tax expense	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	419,361	-	-	419,361
Kids activity fund	17,241	-	-	17,241
Expenses before depreciation, amortization and intercompany fees	53,515,764	103,868	-	53,619,632
Depreciation and amortization	112,990	-	-	112,990
Intercompany management fees	-	5,395,861	-	5,395,861
Intercompany services	(84,648)	-	-	(84,648)
Intercompany rent	1,012,754	-	-	1,012,754
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2022	\$ 54,556,860	\$ 5,499,729	\$ -	\$ 60,056,589

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral Healthcare West Virginia, Inc.
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 4,505,432	\$ 66,647	\$ -	\$ 4,572,079
Payroll taxes	340,528	4,887	-	345,415
Employee benefits	834,856	9,093	-	843,949
Total salaries, wages and related expenses	5,680,816	80,627	-	5,761,443
Office supplies and printing	37,505	-	-	37,505
Copier and fax expense	35,304	557	-	35,861
Postage	3,669	16	-	3,685
Employee recruitment and advertising	37,124	-	-	37,124
Licenses and dues	19,484	-	-	19,484
Insurance	208,000	-	-	208,000
Travel	118,124	-	-	118,124
Telephone	136,808	1,104	-	137,912
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Contract unallowable expenses	30	-	-	30
Consulting and other contractual expenses	45,695	-	-	45,695
Staff development	47,871	1,982	-	49,853
Promotion	12,938	-	-	12,938
Office rent	189,896	-	-	189,896
Equipment expenses	114,680	-	-	114,680
Network services	17,898	-	-	17,898
Maintenance and repairs	12,677	-	-	12,677
Safety services and materials	9,119	-	-	9,119
Food	3,419	-	-	3,419
Food – outings	12,630	346	-	12,976
Housekeeping supplies	674	-	-	674
Miscellaneous housekeeping	52,733	-	-	52,733
Utilities	38,275	-	-	38,275
Payments to foster parents	2,961,267	-	-	2,961,267
Subcontractor – foster home payments	-	-	-	-
Foster family training	45,387	-	-	45,387
Child care payments	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	94,384	-	-	94,384
Vehicle rental	186,059	-	-	186,059
General program supplies	104,792	-	-	104,792
Clothing	30,900	-	-	30,900
Miscellaneous	6,487	-	-	6,487
Interest	5,038	-	-	5,038
Bad debts	7,000	-	-	7,000
Property tax expense	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	11,579	-	-	11,579
Kids activity fund	993	-	-	993
Expenses before depreciation, amortization and intercompany fees	10,289,255	84,632	-	10,373,887
Depreciation and amortization	10,324	7,765	-	18,089
Intercompany management fees	-	895,357	-	895,357
Intercompany services	(26,498)	-	-	(26,498)
Intercompany rent	93,000	-	-	93,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2022	\$ 10,366,081	\$ 987,754	\$ -	\$ 11,353,835

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral Healthcare Kentucky, Inc.
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 9,709,089	\$ 75,953	\$ -	\$ 9,785,042
Payroll taxes	731,207	4,293	-	735,500
Employee benefits	1,655,936	22,885	-	1,678,821
Total salaries, wages and related expenses	12,096,232	103,131	-	12,199,363
Office supplies and printing	26,701	383	-	27,084
Copier and fax expense	1,163	-	-	1,163
Postage	10,180	247	-	10,427
Employee recruitment and advertising	94,727	168	-	94,895
Licenses and dues	28,329	19,611	-	47,940
Insurance	321,806	27	-	321,833
Travel	298,780	-	-	298,780
Telephone	203,582	5,545	-	209,127
Professional fees	66,838	-	-	66,838
Contract labor	-	-	-	-
Contract physicians	36,538	-	-	36,538
Contract unallowable expenses	138,618	735	-	139,353
Consulting and other contractual expenses	3,771	-	-	3,771
Staff development	129,310	984	-	130,294
Promotion	-	150	-	150
Office rent	241,700	32,940	-	274,640
Equipment expenses	195,312	8,176	-	203,488
Network services	14,947	2,160	-	17,107
Maintenance and repairs	2,725	-	-	2,725
Safety services and materials	4,840	1,197	-	6,037
Food	15	-	-	15
Food – outings	2,887	-	-	2,887
Housekeeping supplies	-	18	-	18
Miscellaneous housekeeping	17,856	248	-	18,104
Utilities	36,580	3,105	-	39,685
Payments to foster parents	100,881	-	-	100,881
Subcontractor – foster home payments	-	-	-	-
Foster family training	160	-	-	160
Child care payments	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	13,644	-	-	13,644
Vehicle rental	(13,565)	-	-	(13,565)
General program supplies	9,933	285	-	10,218
Clothing	-	-	-	-
Miscellaneous	8,439	-	-	8,439
Interest	1,767	-	-	1,767
Bad debts	3,000	-	-	3,000
Property tax expense	5,064	1,428	-	6,492
Medicaid assessments	-	-	-	-
Flex fund	738,928	-	-	738,928
Kids activity fund	65	-	-	65
Expenses before depreciation, amortization and intercompany fees	14,841,753	180,538	-	15,022,291
Depreciation and amortization	13,598	961	-	14,559
Intercompany management fees	-	1,494,401	-	1,494,401
Intercompany services	(165,243)	-	-	(165,243)
Intercompany rent	117,623	-	-	117,623
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2022	\$ 14,807,731	\$ 1,675,900	\$ -	\$ 16,483,631

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral Healthcare Nebraska, Inc.
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 2,620,678	\$ 46,611	\$ -	\$ 2,667,289
Payroll taxes	197,526	3,605	-	201,131
Employee benefits	398,207	10,024	-	408,231
Total salaries, wages and related expenses	3,216,411	60,240	-	3,276,651
Office supplies and printing	16,440	535	-	16,975
Copier and fax expense	10,786	-	-	10,786
Postage	8,841	404	-	9,245
Employee recruitment and advertising	20,426	-	-	20,426
Licenses and dues	16,936	3,978	-	20,914
Insurance	148,215.00	-	-	148,215
Travel	46,159	835	-	46,994
Telephone	47,865	807	-	48,672
Professional fees	-	4,252	-	4,252
Contract labor	-	-	-	-
Contract physicians	7,533	-	-	7,533
Contract unallowable expenses	4,060	-	-	4,060
Consulting and other contractual expenses	72,008	-	-	72,008
Staff development	49,718	305	-	50,023
Promotion	7,082	-	-	7,082
Office rent	378,659	-	-	378,659
Equipment expenses	15,754	-	-	15,754
Network services	7,556	387	-	7,943
Maintenance and repairs	1,753	-	-	1,753
Safety services and materials	1,864	25	-	1,889
Food	73	12	-	85
Food – outings	7,023	251	-	7,274
Housekeeping supplies	-	-	-	-
Miscellaneous housekeeping	4,211	263	-	4,474
Utilities	5,483	315	-	5,798
Payments to foster parents	7,020,681	-	-	7,020,681
Subcontractor – foster home payments	-	-	-	-
Foster family training	64,490	-	-	64,490
Child care payments	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	10,879	34	-	10,913
Vehicle rental	20,495	-	-	20,495
General program supplies	41,011	-	-	41,011
Clothing	-	-	-	-
Miscellaneous	5,185	-	-	5,185
Interest	-	-	-	-
Bad debts	7,000	-	-	7,000
Property tax expense	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	15,436	-	-	15,436
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	11,280,033	72,643	-	11,352,676
Depreciation and amortization	9,750	-	-	9,750
Intercompany management fees	-	735,659	-	735,659
Intercompany services	(26,498)	-	-	(26,498)
Intercompany rent	-	-	-	-
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2022	\$ 11,263,285	\$ 808,302	\$ -	\$ 12,071,587

KVC Health Systems, Inc.
Functional Expenses – KVC Hospitals, Inc.
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 18,077,626	\$ -	\$ -	\$ 18,077,626
Payroll taxes	1,469,459	-	-	1,469,459
Employee benefits	2,699,034	(1,757)	-	2,697,277
Total salaries, wages and related expenses	22,246,119	(1,757)	-	22,244,362
Office supplies and printing	89,012	-	-	89,012
Copier and fax expense	35,907	-	-	35,907
Postage	8,719	-	-	8,719
Employee recruitment and advertising	80,564	-	-	80,564
Licenses and dues	28,269	-	-	28,269
Insurance	828,582	-	-	828,582
Travel	41,817	-	-	41,817
Telephone	120,710	-	-	120,710
Professional fees	206,440	-	-	206,440
Contract labor	908,635	-	-	908,635
Contract physicians	3,946,624	-	-	3,946,624
Contract unallowable expenses	58,323	-	-	58,323
Consulting and other contractual expenses	384,756	-	-	384,756
Staff development	144,975	-	-	144,975
Promotion	201,762	-	-	201,762
Office rent	380,706	-	-	380,706
Equipment expenses	523,900	-	-	523,900
Network services	65,051	-	-	65,051
Maintenance and repairs	429,540	-	-	429,540
Safety services and materials	163,981	-	-	163,981
Food	970,663	-	-	970,663
Food – outings	48,770	-	-	48,770
Housekeeping supplies	87,897	-	-	87,897
Miscellaneous housekeeping	738,326	-	-	738,326
Utilities	368,351	-	-	368,351
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Child care payments	-	-	-	-
Medical supplies	808,102	-	-	808,102
Vehicle expenses and repairs	56,467	-	-	56,467
Vehicle rental	50,463	-	-	50,463
General program supplies	247,741	-	-	247,741
Clothing	-	-	-	-
Miscellaneous	27,297	-	-	27,297
Interest	13,264	-	-	13,264
Bad debts	-	-	-	-
Property tax expense	572	-	-	572
Medicaid assessments	14,643	-	-	14,643
Flex fund	2,405	-	-	2,405
Kids activity fund	20,239	-	-	20,239
Expenses before depreciation, amortization and intercompany fees	34,349,592	(1,757)	-	34,347,835
Depreciation and amortization	278,329	-	-	278,329
Intercompany management fees	-	4,383,603	-	4,383,603
Intercompany services	(19,961)	-	-	(19,961)
Intercompany rent	968,400	-	-	968,400
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2022	<u>\$ 35,576,360</u>	<u>\$ 4,381,846</u>	<u>\$ -</u>	<u>\$ 39,958,206</u>

KVC Health Systems, Inc.
Functional Expenses – KVC Foundation, Inc.
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ -	\$ 85,306	\$ 462,761	\$ 548,067
Payroll taxes	-	7,172	36,380	43,552
Employee benefits	-	13,724	49,342	63,066
Total salaries, wages and related expenses	-	106,202	548,483	654,685
Office supplies and printing	-	418	15,836	16,254
Copier and fax expense	-	-	-	-
Postage	-	16	1,728	1,744
Employee recruitment and advertising	-	-	100	100
Licenses and dues	-	27	19,694	19,721
Insurance	-	-	8,535	8,535
Travel	-	5,598	1,351	6,949
Telephone	-	770	4,869	5,639
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Contract unallowable expenses	-	-	-	-
Consulting and other contractual expenses	-	3,868	9,339	13,207
Staff development	-	170	894	1,064
Promotion	-	-	3,916	3,916
Office rent	-	60,149	26,612	86,761
Equipment expenses	-	349	4,954	5,303
Network services	-	-	-	-
Maintenance and repairs	-	71,646	1	71,647
Safety services and materials	-	42,323	161	42,484
Food	-	412	425	837
Food – outings	-	453	1,998	2,451
Housekeeping supplies	-	6,628	-	6,628
Miscellaneous housekeeping	-	22,362	-	22,362
Utilities	-	73,723	247	73,970
Payments to foster parents	-	-	23	23
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Child care payments	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	1,475	3,253	4,728
Vehicle rental	-	274	17,875	18,149
General program supplies	-	568	1,408	1,976
Clothing	-	-	-	-
Miscellaneous	-	36	-	36
Interest	-	530,701	-	530,701
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	928,168	671,702	1,599,870
Depreciation and amortization	-	1,084,244	-	1,084,244
Intercompany management fees	-	146,777	-	146,777
Intercompany services	-	(71,319)	237,703	166,384
Intercompany rent	-	-	-	-
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2022	\$ -	\$ 2,087,870	\$ 909,405	\$ 2,997,275

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral Healthcare Missouri, Inc.
Year Ended June 30, 2022

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 3,065,520	\$ -	\$ -	\$ 3,065,520
Payroll taxes	240,592	-	-	240,592
Employee benefits	406,739	-	-	406,739
Total salaries, wages and related expenses	3,712,851	-	-	3,712,851
Office supplies and printing	22,131	-	-	22,131
Copier and fax expense	9,466	-	-	9,466
Postage	5,955	-	-	5,955
Employee recruitment and advertising	7,676	-	-	7,676
Licenses and dues	(10,247)	-	-	(10,247)
Insurance	167,295	-	-	167,295
Travel	11,149	-	-	11,149
Telephone	41,975	80	-	42,055
Professional fees	4,015	-	-	4,015
Contract labor	11,740	-	-	11,740
Contract physicians	53,638	-	-	53,638
Contract unallowable expenses	32,012	-	-	32,012
Consulting and other contractual expenses	69,097	-	-	69,097
Staff development	28,042	-	-	28,042
Promotion	13,487	-	-	13,487
Office rent	-	-	-	-
Equipment expenses	132,639	-	-	132,639
Network services	5,482	(80)	-	5,402
Maintenance and repairs	57,951	-	-	57,951
Safety services and materials	30,482	-	-	30,482
Food	194,993	-	-	194,993
Food – outings	5,189	-	-	5,189
Housekeeping supplies	29,113	-	-	29,113
Miscellaneous housekeeping	109,273	-	-	109,273
Utilities	75,246	-	-	75,246
Payments to foster parents	18,703	-	-	18,703
Subcontractor – foster home payments	-	-	-	-
Foster family training	64	-	-	64
Child care payments	-	-	-	-
Medical supplies	14,102	-	-	14,102
Vehicle expenses and repairs	8,514	-	-	8,514
Vehicle rental	26,550	-	-	26,550
General program supplies	35,824	-	-	35,824
Clothing	2,476	-	-	2,476
Miscellaneous	7,245	-	-	7,245
Interest	1,965	-	-	1,965
Bad debts	47,000	-	-	47,000
Property tax expense	2,204	-	-	2,204
Medicaid assessments	-	-	-	-
Flex fund	215	-	-	215
Kids activity fund	4,664	-	-	4,664
Expenses before depreciation, amortization and intercompany fees	4,990,176	-	-	4,990,176
Depreciation and amortization	177,009	-	-	177,009
Intercompany management fees	-	415,835	-	415,835
Intercompany services	(21,660)	-	-	(21,660)
Intercompany rent	-	-	-	-
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2022	<u>\$ 5,145,525</u>	<u>\$ 415,835</u>	<u>\$ -</u>	<u>\$ 5,561,360</u>

KVC Health Systems, Inc.
Schedule of Revenue and Expenses for
Kansas Department for Children and Families
Reintegration/Foster Care/Adoption Services
Year Ended June 30, 2022

	<u>Area 3</u>	<u>Area 6</u>	<u>Total</u>
Revenue			
DCF grant	\$ 15,352,761	\$ 11,999,480	\$ 27,352,241
DCF reimbursable cost	2,113,936	1,715,667	3,829,603
DCF CSA revenue	11,153	9,206	20,359
DCF Cares Act funding	-	2,254	2,254
DCF incentive payment revenue	168,225	328,008	496,233
Contributions	1,818	5,672	7,490
Grants	26,906	21,741	48,647
Other - billable services	335,918	271,431	607,349
Other - miscellaneous	971	2,621	3,592
Total revenue	<u>18,011,688</u>	<u>14,356,080</u>	<u>32,367,768</u>
Expenses			
Salaries and wages (including taxes and benefits)			
Administration	1,552,944	1,254,612	2,807,556
Case management	8,777,798	7,043,718	15,821,516
Client transportation	769,176	518,843	1,288,019
Total salaries and wages	<u>11,099,918</u>	<u>8,817,173</u>	<u>19,917,091</u>
Operating, property and travel			
Direct operating	1,349,222	897,452	2,246,674
Direct property and equipment	1,154,210	604,856	1,759,066
Direct transportation and travel	721,865	435,608	1,157,473
Total placement costs	<u>3,225,297</u>	<u>1,937,916</u>	<u>5,163,213</u>
Other costs			
Unreimbursed medical	-	98	98
Flex funds	202,001	231,611	433,612
Reimbursable placement costs	2,098,255	1,693,965	3,792,220
Reimbursable daycare costs	15,681	21,702	37,383
Other - miscellaneous	72,883	53,022	125,905
Other - management fee	1,638,774	1,247,577	2,886,351
Total other costs	<u>4,027,594</u>	<u>3,247,975</u>	<u>7,275,569</u>
Total expenses	<u>18,352,809</u>	<u>14,003,064</u>	<u>32,355,873</u>
Revenues over (under) expenses	<u>\$ (341,121)</u>	<u>\$ 353,016</u>	<u>\$ 11,895</u>

KVC Health Systems, Inc.
Schedule of Revenue and Expenses for
Kansas Department for Children and Families
Kansas Child Placing Services
Year Ended June 30, 2022

Revenue

Revenue - DCF (administrative)	\$ 7,453,394
Revenue - other payers (administrative)	16,092,964
Foster parent maintenance (paid by DCF)	103,785
Foster parent maintenance (other payers)	352,832
Contributions	45,932
Home study fees	396,000
Children's Alliance training reimbursement	72,679
DCF Cares Act funding	26,065
Other income	22,354
Total revenue	<u>24,566,005</u>

Expenses

Salaries and wages (including taxes and benefits)	
Administration	603,947
Direct	3,150,932
Recruitment and training	636,174
Treatment	182,632
Total salaries and wages	<u>4,573,685</u>
Operating, property and travel	
Direct operating	754,162
Direct property and equipment	402,327
Direct transportation and travel	53,355
Recruitment and training operating	222,760
Recruitment and training property and equipment	66,152
Recruitment and training transportation and travel	31,056
Total placement costs	<u>1,529,812</u>
Other costs	
Foster parent payment (paid by DCF)	16,088,531
Foster parent payment (paid by other payers)	352,832
Other - unallowable	12,633
Other - management fee	2,256,673
Total other costs	<u>18,710,669</u>
Total expenses	<u>24,814,166</u>
Revenues under expenses	<u>\$ (248,161)</u>

KVC Health Systems, Inc.
Schedule of System of Care Grant
Agreement Number – G210214
Year Ended June 30, 2022

Revenue	
Grant revenue	<u>\$ 72,000</u>
Expenses	
Salaries and wages	48,780
Taxes and benefits	14,216
Supplies	389
Rent	1,729
Phone	1,035
Indirect	6,441
Unallowable	26,411
Total expenses	<u>99,001</u>
Revenues under expenses	<u><u>\$ (27,001)</u></u>

KVC Health Systems, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Program or Cluster Title	Federal Grantor/Pass-Through Grantor	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Temporary Assistance for Needy Families (TANF) State Programs	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.558	EES-2021-KVC-01/ PPS-2019-CPA-KVC-16/26 2019-KVC-CM3/CM6	\$ -	\$ 5,768,694
Child Nutrition Cluster					
School Breakfast Program	U.S. Department of Agriculture passed through the Missouri State Department of Education	10.553	None	-	26,828
School Breakfast Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.553	X0925	-	115,154
Total Assistance Listing # 10.553				-	141,982
National School Lunch Program	U.S. Department of Agriculture passed through the Missouri State Department of Education	10.555	None	-	47,517
National School Lunch Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.555	X0925	-	230,901
Total Assistance Listing # 10.555				-	278,418
Total Child Nutrition Cluster				-	420,400
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	U.S. Department of Health and Human Services passed through Region VI Behavioral Health Administration	93.104	SM063392	-	41,718
MaryLee Allen Promoting Safe and Stable Families Program	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.556	Family Services - Flex Spending/ 2019-KVC-CM3/2019-KVC-CM6	-	263,381
MaryLee Allen Promoting Safe and Stable Families Program	U.S. Department of Health and Human Services passed through the Kentucky Cabinet for Health and Family Services	93.556	PON2 736 2000003298/3299/3297/ 3296/3295/3301/3300/3302	-	1,503,158
MaryLee Allen Promoting Safe and Stable Families Program	U.S. Department of Health and Human Services passed through the Kentucky Cabinet for Health and Family Services	93.556	PON2 736 2200001424/1427/ 1428/1429/1430	-	8,933
MaryLee Allen Promoting Safe and Stable Families Program	U.S. Department of Health and Human Services passed through the Kentucky Cabinet for Health and Family Services	93.556	PON2 736 2000003349	-	204,869
Total Assistance Listing # 93.556				-	1,980,341

KVC Health Systems, Inc.
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2022

Program or Cluster Title	Federal Grantor/Pass-Through Grantor	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Title IV-E Prevention Program	U.S. Department of Health and Human Services passed through the Kentucky Cabinet for Health and Family Services	93.472	PON2 736 2000003297/3298/3299/3300/3301/3302	\$ -	\$ 1,194,549
Title IV-E Prevention Program	U.S. Department of Health and Human Services passed through the Kentucky Cabinet for Health and Family Services	93.472	PON2 736 2200001424/1427/1428/1429/1430	-	<u>2,526,556</u>
Total Assistance Listing # 93.472				-	<u>3,721,105</u>
Foster Care - Title IV-E	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.658	2019-KVC-RTHT/PPS-2019-CPA-KVC-16/PPS-2019-RF-KVC-26/2019-KVC-CM3	-	5,775,644
Foster Care - Title IV-E	U.S. Department of Health and Human Services passed through Missouri Department of Social Services	93.658	2019-KVC-CM6 CS202476009	-	31,826
Foster Care - Title IV-E	U.S. Department of Health and Human Services passed through the Nebraska Department of Health and Human Services	93.658	G-2101NEFOST/G-2201NEFOST	-	189,748
Foster Care - Title IV-E	U.S. Department of Health and Human Services passed through the Kentucky Cabinet for Health and Family Services	93.658	PON2 736 2000001542	-	<u>1,073,203</u>
Total Assistance Listing # 93.658				-	<u>7,070,421</u>
Adoption Assistance	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.659	PPS-2019-CPA-KVC-16/2019-KVC-CM3 2019-KVC-CM6/2019-KVC-ADOPT	-	228,814
Stephanie Tubbs Jones Child Welfare Services Program	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.645	Family Services - Flex Spending	-	14,458
COVID-19 Stephanie Tubbs Jones Child Welfare Services Program	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.645	IV-B CWS Pandemic Grant	-	<u>28,364</u>
Total Assistance Listing # 93.645				-	<u>42,822</u>

KVC Health Systems, Inc.
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2022

Program or Cluster Title	Federal Grantor/Pass-Through Grantor	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Social Services Block Grant	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.667	2019-KVC-CM3/2019-KVC-CM6	\$ -	\$ 3,940,737
John H. Chafee Foster Care Program for Successful Transition to Adulthood	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.674	2019-KVC-CM3/2019-KVC-CM6	-	52,416
Enhance Safety of Children Affected by Substance Abuse	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.087	90CU0079-02-00/90CU0079-03-00	-	153,337
Adoption Opportunities	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.652	90CO1139-01-00/90CO1139-01-01	-	6,660
Adoption and Legal Guardianship Incentive Payments	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.603	PPS-2021-FCPS-03	-	142,380
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	U.S. Department of Health and Human Services	93.498	None	-	1,155,675
				<u>\$ -</u>	<u>\$ 24,725,520</u>

KVC Health Systems, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

KVC Health Systems, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Providers Included

The Schedule of Expenditures of Federal Awards includes KVC Behavioral HealthCare, Inc. TIN# 480770308, KVC Behavioral Healthcare Kentucky, Inc. TIN# 270795565, KVC Behavioral Healthcare Nebraska, Inc. TIN# 270408957, and KVC Behavioral Healthcare West Virginia, Inc. TIN# 311770280.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
KVC Health Systems, Inc.
Olathe, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of KVC Health Systems, Inc. (the "Organization"), which comprise the Organization's consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 15, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS,LLP

Kansas City, Missouri
December 15, 2022

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
KVC Health Systems, Inc.
Olathe, Kansas

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited KVC Health Systems, Inc. (the Organization) compliance with the types of compliance requirements identified as subject to audits in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

In our opinion, except for the noncompliance described in the "Basis for Qualified and Unmodified Opinions" section of our report, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution for the year ended June 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the “Auditor’s Responsibilities for the Audit of Compliance” section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization’s compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding Federal Assistance Listing No. 93.498 COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution as described in finding number 2022-001 for Allowable Costs/Cost Principles and Reporting.

Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization’s federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FORVIS,LLP

Kansas City, Missouri
December 15, 2022

KVC Health Systems, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I – Summary of Auditor’s Results

Consolidated Financial Statements

1. Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP):

Unmodified Qualified Adverse Disclaimer

2. Internal control over financial reporting:

Significant deficiency(ies) identified? Yes None reported

Material weakness(es) identified? Yes No

3. Noncompliance material to the consolidated financial statements noted? Yes No

Federal Awards

4. Internal control over major federal awards programs:

Significant deficiency(ies) identified? Yes None reported

Material weakness(es) identified? Yes No

5. Type of auditor’s report issued on compliance for major federal programs:

Mary Lee Allen Promoting Safe and Stable Families Program and Title IV-E Prevention Program

Unmodified Qualified Adverse Disclaimer

COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Unmodified Qualified Adverse Disclaimer

6. Any audit findings disclosed that are required to be reported by 2 CFR 200.516(a)? Yes No

KVC Health Systems, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2022

7. Identification of major federal programs:

Name of Federal Program or Cluster	Assistance Listing Numbers
Mary Lee Allen Promoting Safe and Stable Families Program	93.556
Title IV-E Prevention Program	93.472
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

9. Auditee qualified as a low-risk auditee? Yes No

KVC Health Systems, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2022

Section II – Financial Statement Findings

Reference Number	Finding
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No matters are reportable.

Section III – Federal Awards Findings and Questioned Costs

Reference Number	Finding
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2022-001 **U.S. Department of Health and Human Services (HHS)
Direct Program: COVID-19 Provider Relief Fund - 93.498**

Criteria or Specific Requirement – *Reporting (45 CFR 75.342) and Activities Allowed/Unallowed and Cost Principles (Pub L. No. 116-136, 134 Stat. 563 and Pub L. No. 116-139, 134 Stat. 622 and 623).* The Provider Relief Fund (PRF) was established in the *Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136)* to reimburse, through grants or other mechanisms, eligible health care providers for increased expenses or lost revenue attributable to Coronavirus Disease (COVID-19). Entities that received more than \$10,000 (either one time or in the aggregate) are required to report the uses of their funds, including the lost revenue reimbursement and documentation of how the lost revenue was calculated. In addition, management is responsible for establishing and maintaining effective internal control over costs directly and indirectly charged to federal awards.

Condition - The Organization is required to prepare and submit period two and three of Provider Relief Fund reporting to HHS. The required reporting is to be prepared using accurate financial information. The Organization incorrectly calculated their COVID-19-related lost revenues for the required reporting.

Questioned Costs – None

Context – Out of a population of three provider relief fund reports filed by the Organization, testing the Provider Relief Fund report for period two and associated lost revenue calculation for KVC hospital entity (TIN 271672159), it was determined the lost revenues for the third and fourth quarters of 2021 were reported and calculated incorrectly. The Organization did not properly include correct amounts within the lost revenue calculations resulting in a material under-reporting of lost revenues within the quarters reported.

Effect – Lost revenue was not accurately calculated or reported.

KVC Health Systems, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2022

Reference Number	Finding
2022-001 <i>continued</i>	<p>U.S. Department of Health and Human Services (HHS) Direct Program: COVID-19 Provider Relief Fund - 93.498</p> <p>Cause – Internal Controls were not in place to ensure the Organization's calculation was properly reviewed for the use of correct formulas or data input.</p> <p>Identification as a Repeat Finding – Not applicable.</p> <p>Recommendation – The Organization should continue to improve its understanding of the guidance related to this type of reporting and implement additional controls over future reporting periods to help ensure guidance is followed.</p> <p>View of Responsible Official and Planned Corrective Actions – The Organization agrees with this finding. See separate auditee documentation for planned corrective action.</p>

KVC Health Systems, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022

Reference Number	Summary of Finding	Status
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No matters are reportable.